

Washington State Auditor's Office

Audit Report

Audit Services

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DEPARTMENT OF LABOR AND INDUSTRIES

Agency No. 235

July 1, 1995 Through June 30, 1996

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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Department of Labor and Industries included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for the Department of Labor and Industries.

Brian Sonntag
State Auditor

December 31, 1996

DEPARTMENT OF LABOR AND INDUSTRIES
Agency No. 235
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Department Of Labor And Industries (L&I) Should Comply With State Statutes Relating To Providers Of Vocational Counseling Services

L&I contracts with a large number of private sector vocational counselors to supply counseling services to injured workers. Our review of the use of these counselors revealed the following:

- a. Effectiveness of services received in relation to fees paid to counselors is not monitored. Costs often exceed agency determined fee guidelines by substantial amounts without explanation.
- b. The data gathered on the quality and effectiveness of services supplied by vocational counselors are not used for making referrals.

RCW 51.32.095 (1) states in part:

. . . The department . . . shall utilize the services of individuals and organizations, public and private, whose experience, training, and interests in vocational rehabilitation and retraining qualify them to lend expert assistance to the supervisor of industrial insurance . . .

RCW 51.32.095 (4) states:

The department shall establish criteria to monitor the quality and effectiveness of rehabilitation services provided by the individuals and organizations used under subsection (1) of this section. The state fund shall make referrals for vocational rehabilitation services based on these performance criteria.

L&I has established criteria and gathered data on the quality and effectiveness of services supplied by private sector vocational counseling service providers. However, management has not implemented a program to utilize this data to monitor costs and make referrals based on performance.

Lack of monitoring counselor fees could lead to using providers who consistently charge more for services that are available from lower cost providers. Not identifying and utilizing counselors which provide the highest quality and most effective services may jeopardize the quality of vocational counseling provided to injured workers.

We recommend L&I develop a program to utilize data on the quality and effectiveness of services provided by private sector vocational counselors, and make referrals based on

performance criteria to ensure the highest quality, most effective, and least costly services are obtained.

Auditee's Response

An action plan which develops a system for reviewing and following up on those claims exceeding the monetary guidelines and which monitors the effectiveness of services received in relation to fees paid is targeted to be completed by March 14, 1997. Implementation of the plan will occur no later than September 30, 1997.

Currently, data collected regarding vocational counselor performance is based primarily on cost and case difficulty. We agree with the auditor's findings that cost effectiveness is one among many possible referral criteria.

The department will develop a program to utilize data on the quality and effectiveness of services provided by private sector vocational counselors and will make referrals based on performance criteria in order to ensure that the highest quality, most effective and least costly services are obtained. Our goal is to develop initial criteria for use by claims staff in making referrals by December 31, 1997. No model guidelines using "vocational outcomes" as a referral criteria currently exist in any other workers' compensation jurisdiction. Open communication and careful work with the provider community are critical to the acceptance and success of this project.

Auditor's Concluding Remarks

We appreciate the agency's concurrence with this finding and commitment to resolution. We will review these matters again during the course of our next audit.

2. The Department Of Labor And Industries (L&I) Should Comply With State Statutes Relating To Accounts Receivable From Providers Of Vocational Services

L&I pays fees for counseling services in connection with vocational retraining programs for injured workers. L&I staff perform audits of these counselors to ensure fees charged are in accordance with agency requirements. When fees are disallowed, L&I requests repayment from the counselor. These repayments are receivables due to the agency. We found that these receivables are not properly recorded in subsidiary and general ledgers, and collection actions are not initiated timely. Pertinent documents to support these receivables are not routed to the individual responsible for recording collections. During our review, we found unrecorded receivables of at least \$241,255 for this program.

The state of Washington Office of Financial Management *Policies, Regulations, and Procedures* manual, Section 2.2.4.3.1.b states in part:

Agencies are to promptly record receivables when the asset or revenue recognition criteria have been met

Section 2.2.4.3.3.b states in part:

. . . Procedures are to be . . . followed to ensure that past due receivables are followed up promptly

Section 2.2.4.3.5 states:

Transactions affecting receivables are to be supported by documents indicating all pertinent information relating to the transactions. Detailed posting of these documents are to be recorded and maintained in the subsidiary ledgers for all outstanding receivables. Detailed posting are to be summarized and entered in the general ledger control account.

Management of this program was not aware of the documenting, recording, and collecting requirements of accounts receivable.

Improper routing of documentation hinders the collection process by not providing detail necessary for the identification and tracking of the receivables. Not recording receivables results in improper accounting for assets of the state. Lack of prompt collection activity may result in loss of the amount owed the state.

We recommend L&I develop and implement a program to properly record and collect timely the receivables identified through audits of providers of vocational counseling services.

Auditee's Response

Procedures have been revised and will be communicated to all staff members in the Private Sector Rehabilitation Section by February 10, 1997. The procedures require formal notification to the recoupment specialist who establishes contact with the provider for collection purposes. Payments and balances will be tracked at both the provider and program levels.

The department recognizes a need to standardize the collections of these receivables with similar efforts in other program areas. By July 1, 1997, options for enhancing the collection activities for vocational providers will be evaluated and additional procedures will be implemented to ensure timely collection.

Auditor's Concluding Remarks

We appreciate the actions taken by the agency, and we will review the new procedures during our next audit.

3. The Department Of Labor And Industries (L&I) Should Continue To Improve Controls Over The Fiscal MODS System

L&I uses the Fiscal MODS system to record receipts other than industrial insurance moneys. Our review of cash receipting at L&I service locations revealed several weaknesses within Fiscal MODS. Conditions noted include:

- a. Receipt numbers are automatically assigned by the system in sequential order throughout the state. However, this number can be overridden by the operator with any previously assigned number.
- b. A review of receipts is not performed to account for all receipts issued for each day. Missing receipt numbers cannot be identified in each location as numbers are assigned statewide.
- c. Advanced payments by contractors, to be used later for electrical permits or fees, can be entered into the system without a receipt number being assigned.

- d. The system allows the operator to make adjustments and credits to receipts.
- e. Operators are responsible for entering their own initials as the only identification of process initiation.
- f. Electrical inspectors have access to change dollar amounts within the system.

These conditions were previously noted in our 1995 *State of Washington Single Audit Report*, Finding 33.

The state of Washington Office of Financial Management *Policies, Regulations, and Procedures* manual, Section 6.1.1.2.4.b states in part:

- (1) Division of Duties) Whenever possible, no individual is to have complete control over any type of asset in any agency, department, or division of the state. The work of employees handling public assets should be complementary to or checked by other employees. This will not only decrease the chance of loss by means of fraud or dishonesty, but will also provide a means to detect errors.
- (2) Sound Policies and Procedures) Every effort is to be made to ensure that the assets of the state are properly handled. By supplying employees with strict control procedures and ensuring that they are followed through the use of checks and audits, the chance of losses will be greatly decreased.
- (3) Authorization and Record Procedures) A system of authorization and record procedures is to be provided in order to assure reasonable accounting control over assets, liabilities, revenues, and expenses. This includes the use of such forms as invoices, warrants, vouchers, and written receipts.

Section 6.2.2.1.1.(g) states in part:

Collections . . . are to be documented by the issuance of sequentially prenumbered official receipts . . . All such receipts are to be strictly accounted for and the reason for any missing documents determined and documented

L&I management is aware of the weakness related to the Fiscal MODS system and has developed a plan to address those weaknesses. However, this plan has not yet been implemented.

System weaknesses, such as those cited above, increase the risk that errors and irregularities will occur without detection.

We recommend L&I commit the necessary resources to implement improved controls over the Fiscal MODS system.

Auditee's Response

As a result of this finding in last year's report, the department has been developing a new computer system which, along with staff training and the cash handling controls already in place, eliminates each of the weaknesses identified. System development will be completed on March 31, 1997; staff training will be completed by May 5, 1997; and the new system will replace the present one on the latter date.

Auditor's Concluding Remarks

We appreciate the agency's commitment to correcting weaknesses identified in the system. We will review the implementation of system changes during our next audit.